

SECOND DISCUSSION PAPER

Proposed Regulation to Provide Explanation of Rural Investment Tax Exemption Proposed Regulation 1525.7, *Rural Investment Tax Exemption*

Issue

Should Regulation 1525.7, *Rural Investment Tax Exemption*, be created to incorporate the statutory changes pursuant to Assembly Bill (AB) 511?

Background

Revenue and Taxation Code (RTC) section 6378.1 was added by AB 511, Statutes of 2000, Chapter 107, effective January 1, 2001. It expires December 31, 2005. RTC section 6378.1 provides an exemption from the state portion of the sales or use taxes (hereafter “partial exemption”) for an eligible entity as determined by the California Infrastructure and Economic Development Bank Board (hereafter “CIEDB Board”) of the California Technology, Trade, and Commerce Agency. The language provided in AB 511 is attached as Exhibit 1.

Discussion of Statutory Language

As provided by RTC section 6378.1, an “eligible entity” as determined by the CIEDB Board is an entity that complies with all of the following:

1. The entity shall locate or expand a business in a California county with an average annual unemployment rate of five percentage points or more above the statewide average for the most recent calendar year as determined by the State of California, Employment Development Department.
2. The entity shall make a new investment of at least one hundred fifty million dollars (\$150,000,000) in the county in which the entity locates its business and shall maintain this level of investment for a period of at least 24 months after the CIEDB Board certifies that the entity has become an eligible entity.
3. The entity shall employ at least five hundred (500) new full-time equivalent employees in the county, including employees who are employed directly by the entity and employees who are hired by supporting industries. Employees shall be employed for at least twenty-four (24) months after the CIEDB Board certifies that the entity has become eligible. At least one-hundred seventy-five (175) of the new full-time equivalent employees shall be directly employed by the entity.

This partial exemption applies to machinery and equipment, including component parts, purchased by an eligible entity as previously defined. However, the partial exemption does not apply to:

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- Tangible personal property that is purchased for use primarily in administration, general management, or marketing;
- Furniture, inventory, or equipment used to store products; or
- Any property for which a credit is claimed under the Manufacturer's Investment Credit set forth in either Section 17053.49 or 23649 of the Revenue and Taxation Code.

Since the partial exemption provided under RTC section 6378.1 cannot exceed an aggregate amount of five million dollars (\$5,000,000) of tax per year, the CIEDB Board shall determine the amount of the exemption available to each eligible entity.

Discussion of Proposed Regulatory Language

A copy of proposed Regulation 1525.7, *Rural Investment Tax Exemption*, is attached as Exhibit 2. The proposed language in this regulation is modeled, in part, after Regulation 1525.2, *Manufacturing Equipment*. In addition to providing a partial exemption from the sales and use tax, the Rural Investment Tax exemption and the Manufacturing Equipment exemption both require the entity to register with the Board of Equalization who will issue an exemption certificate valid for a limited period. Both of these mutually exclusive partial tax exemptions apply to machinery and equipment and do not apply to tangible personal property that is purchased primarily for administration, general management, or marketing or items such as furniture, inventory, or equipment used to store products.

While the Manufacturing Equipment exemption was created to promote the development of California's manufacturing economy, the Rural Investment Tax Exemption is designed to provide financial incentives to existing businesses, particularly manufacturers, that are willing to sustain a substantial monetary investment while creating new jobs in a California county that has an unemployment rate significantly higher than the statewide average. Unlike the partial sales and use tax exemption for new manufacturers, the Rural Investment Tax Exemption is not limited to manufacturers.

Eligibility for the Rural Investment Tax exemption will be determined by the CIEDB Board, not the Board of Equalization. When the CIEDB Board finds an entity to be eligible for the Rural Investment Tax Exemption, the CIEDB Board will provide the entity with written notification. The Board of Equalization will issue an exemption certificate to applicants who provide a copy of the written notice of eligibility and/or re-eligibility from the CIEDB Board and who are registered to hold a California seller's permit or maintain a consumer use tax account. It will be the responsibility of the CIEDB Board to ensure that an eligible entity continues to meet the requirements of eligibility for the Rural Investment Tax exemption.

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The CIEDB Board must notify the Board of Equalization if a previously eligible entity is no longer eligible for the Rural Investment Tax exemption. The Board of Equalization will be responsible for examining the books and records of the entity and issuing a determination of any liabilities due.

The Board of Equalization proposes language that will provide that a retailer may obtain a refund of taxes remitted for the period January 1, 2001 through June 30, 2002. In order to claim a refund for taxes that were already reported and remitted to the Board of Equalization, a retailer must obtain and retain a partial exemption certificate from the purchaser prior to June 30, 2002 and file a written claim for refund on or before July 31, 2002.

Meeting With Interested Parties – August 22, 2001

A meeting was held with interested parties on August 22, 2001. Several industry representatives and sales tax consultants were in attendance, as were representatives from the CIEDB Board. Staff discussed the proposed regulatory language as well as the roles of the Board and CIEDB Board. There were no submissions received from interested parties following this meeting. However, staff made the following minor revisions to the proposed regulatory language as a result of comments received at the August 22, 2001 meeting:

- 1525.7(a). Added “Technology” to the title of the California Technology, Trade, and Commerce Agency.
- 1525.7(c)(1). Added the requirement that the applicant provide the exemption amount allocated by CIEDB Board.
- 1525.7(c)(1). Added language to clarify that it may be necessary to re-qualify with the Board periodically in accordance with the CIEDB Board’s eligibility requirements.
- 1525.7(d)(1). Extended refund periods to coincide with anticipated approval of regulation.
- 1525.7(e)(3). Added this subdivision to specifically provide that the partial exemption does not apply to the sales of tangible personal property in cases where the eligible entity exceeds the amounts allocated by the CIEDB Board.

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Summary

Staff proposes regulatory language to implement the provisions of RTC section 6378.1, and welcomes any comments, suggestions, and input from interested parties regarding this issue.

Prepared by the Program Planning Division, Sales and Use Tax Department

Current as of 09/27/2001

**Revenue and Taxation Code Section 6378.1
As Added by AB 511 (Chap. 107) Stats. of 2000**

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 6378.1 is added to the Revenue and Taxation Code, to read:

6378.1. (a) On and after January 1, 2001, and before January 1, 2006, there are exempted from the taxes imposed by this part, the gross receipts from the sale in this state of, and the storage, use, or other consumption in this state of, tangible personal property purchased by eligible entities, as defined in subdivision (f).

(b) The exemption provided under this part shall be termed the Rural Investment Tax exemption.

(c) The California Infrastructure and Economic Development Bank (CIEDB) board shall develop a program that determines who is eligible to receive this exemption, monitor entities for compliance with the requirements of this section, and notify the State Board of Equalization, as provided in this section. The CIEDB shall determine the amount of the exemption available to each entity.

(d) Entities wishing to qualify for this exemption shall apply to the CIEDB board in a manner prescribed by the CIEDB board. The CIEDB board shall provide all applicants written notification stating the eligibility of the applicant to receive an exemption under this section.

(e) The annual amount of exemptions that may be granted pursuant to this section shall not exceed five million dollars (\$5,000,000) per year. The CIEDB board shall not authorize any exemption that would cause the total amount of exemptions authorized with respect to any calendar year under this section to exceed five million dollars (\$5,000,000).

(f) For purposes of this section:

(1) "Eligible entity" means an entity that complies with all of the following:

(A) The entity shall locate or expand a business in a California county with an average annual unemployment rate of five percentage points or more above the statewide average for the most recent calendar year as determined by the State of California, Employment Development Department.

(B) The entity shall make a new investment of at least one hundred fifty million dollars (\$150,000,000) in the county in which the entity locates its business and shall maintain this level of investment for a period of at least 24 months after the CIEDB board certifies that the entity has become an eligible entity.

(C) The entity shall employ at least 500 new full-time equivalent employees in the county, including employees who are employed directly by the entity and employees who are hired by supporting industries. Employees shall be employed for at least 24 months

after the CIEDB certifies that the entity has become eligible. At least 175 of the new full-time equivalent employees shall be directly employed by the entity.

(2) "New full-time equivalent employees" means employees hired by the entity seeking the exemption allowed under this part and not employees moved, transferred, or displaced from other places of business of the entity within this state.

(3) "Tangible personal property" means machinery and equipment, including component parts.

(4) "Tangible personal property" does not include any of the following:

(A) Tangible personal property that is used primarily in administration, general management, or marketing.

(B) Furniture, inventory, or equipment used to store products.

(C) Any property for which a credit is claimed under either Section 17053.49 or 23649 of the Revenue and Taxation Code.

(g) Prior to claiming an exemption under this section, the eligible entity shall apply to the State Board of Equalization for an exemption certificate and shall include a copy of the written notification from the CIEDB board stating that the entity applying for the exemption certificate is eligible to receive an exemption under this section. No exemption shall be allowed under this section unless the eligible entity furnishes the retailer with an exemption certificate, completed in accordance with any instruction or regulations as the State Board of Equalization may prescribe, and the retailer subsequently furnishes the board with a copy of the exemption certificate. The exemption certificate shall contain the sales price of the machinery and equipment that is exempt pursuant to subdivision (a).

(h) (1) Notwithstanding any provision of the Bradley-Burns Uniform Local Sales and Use Tax Law (Part 1.5 (commencing with Section 7200)) or the Transactions and Use Tax Law (Part 1.6 (commencing with Section 7251)), the exemption established by this section shall not apply with respect to any tax levied by a county, city, or district pursuant to, or in accordance with, either of these laws.

(2) The exemption established by this section shall not apply with respect to any tax levied pursuant to Sections 6051.2 and 6201.2, or pursuant to Section 35 of Article XIII of the California Constitution.

(3) The exemption established by this section shall not apply to any sale or use of property that, within one year from the date of purchase, is either removed from a California county as described in subparagraph (A) of paragraph (1) of subdivision (f), or converted from an exempt use under subdivision (a) to some other use not qualifying for the exemption.

(i) (1) If a purchaser certifies in writing to the seller that the property purchased without payment of the tax will be used in a manner entitling the seller to regard the gross receipts from the sale as exempt from the sales tax, and within one year from the date of purchase, the purchaser (1) removes that property outside a California county as described in subparagraph (A) of paragraph (1) of subdivision (f), or (2) converts that property for use in a manner not qualifying for the exemption, the purchaser shall be liable for payment of sales tax, with applicable interest, as if the purchaser were a retailer

making a retail sale of the property at the time the property is so removed, converted, or used, and the sales price of the property to the purchaser shall be deemed the gross receipts from that retail sale.

(2) The purchaser shall be liable for payment of sales tax, with applicable interest, as if the purchaser were a retailer making a retail sale of the property if the purchaser does not achieve the level and duration of employment and investment pursuant to subdivision (f) within three years from the date the entity first uses an exemption under this section. The CIEDB board may extend this time period by a maximum of 12 months for reasonable cause.

(j) (1) The CIEDB board shall determine if entities have fulfilled the requirements necessary in order to keep this exemption and shall report to the State Board of Equalization on entities that have not fulfilled these requirements.

(2) Notwithstanding Section 6902, the State Board of Equalization shall, within one year after being notified by the CIEDB board that an entity has not fulfilled the requirements of this section, examine the books and records of the entity, and issue a determination of any liabilities due.

(k) The CIEDB board shall provide a report to the Legislature, the Department of Finance, and the State Board of Equalization no later than January 15 following each fiscal year the program is in operation. The report shall include, at a minimum, all of the following:

(1) The entities that have been provided the exemption established by this section and the amount of the exemption authorized by the CIEDB board to each entity.

(2) The number of new persons employed by each entity.

(3) The amount of investment made by each entity.

(4) A description of the economic development provided by each entity receiving the exemption.

(5) A description of each entity that has fulfilled the requirements of paragraph (1) of subdivision (f).

(6) A description of each entity that has not fulfilled the requirements of paragraph (1) of subdivision (f).

(l) (1) This section shall become operative on the first day of the first calendar quarter commencing more than 90 days after the effective date of this act.

(2) This section shall remain in effect only until January 1, 2006, and as of that date is repealed.

Proposed Regulation 1525.7. Rural Investment Tax Exemption.

Reference: Section 6378.1, Revenue and Taxation Code.

(a) GENERAL. Commencing on and after January 1, 2001, and before January 1, 2006, Section 6378.1 of the Revenue and Taxation Code authorizes the Rural Investment Tax exemption (hereafter "Partial Exemption") which provides a partial exemption from sales or use taxes imposed on the gross receipts from the sale of, and the storage, use, or other consumption in this state, of tangible personal property as defined in subdivision (b)(6) by an eligible entity as defined in subdivision (b)(3). The Partial Exemption applies to the taxes imposed by Sections 6051, 6051.3, 6201, and 6201.3 of the Revenue and Taxation Code (4.75%), but does not apply to the taxes imposed pursuant to Sections 6051.2 and 6201.2 of the Revenue and Taxation Code, the Bradley-Burns Uniform Local Sales and Use Tax Law, the Transactions and Use Tax Law, or Section 35 of article XIII of the California Constitution.

The California Infrastructure & Economic Development Bank (CIEDB) Board, part of the California Technology, Trade & Commerce Agency, determines who is eligible to receive this Partial Exemption and monitors eligible entities for compliance with the requirements of the Partial Exemption. As the aggregate amount of this Partial Exemption is limited, the CIEDB Board determines the amount of this Partial Exemption available to each eligible entity.

(b) DEFINITIONS. For purposes of this regulation:

- (1) "Board" refers to the Board of Equalization.
- (2) "CIEDB Board" refers to the California Infrastructure & Economic Development Bank Board.
- (3) "Eligible entity" means any entity that meets all of the following:
 - (A) The entity is deemed eligible for the Partial Exemption in writing by the CIEDB Board.
 - (B) The entity has been pre-qualified, and re-qualified as applicable, by the Board and registered to hold a California seller's permit or maintain a consumer use tax account.
- (4) "Primarily" means used 50 percent or more of the time in a qualified county for the one-year period following the date of purchase of the property. Tangible personal property shall not be considered used for any period of time that the property is located outside a qualified county, regardless of how the property is used while outside the qualified county.
- (5) "Qualified county" means a California county with an average annual unemployment rate of five percentage points or more above the statewide average for the most recent calendar year as determined by the State of California, Employment Development Department.
- (6) "Tangible personal property" includes all of the following:
 - (A) Machinery and equipment within the meaning of subsection (a)(6) of Regulation 1521 of the Sales and Use Tax Regulations, including component parts and contrivances such as belts, shafts, moving parts, and operating structures. The terms also include conveyance systems and assembly lines without regard to the manner of affixation to real property.

Proposed Regulation 1525.7. Rural Investment Tax Exemption

(B) All equipment or devices used or required to operate, control, regulate, or maintain the machinery including, without limitation, computers, data processing equipment, and computer software, including both operating programs and application programs, together with all repair and replacement parts with a useful life of one or more years therefor, whether purchased separately or in conjunction with a complete machine and regardless of whether the machine or component parts are assembled by the taxpayer or another party. Repair and replacement parts with a useful life of more than one year may qualify for this Partial Exemption even where such items are expensed for income tax purposes under the special provisions of Internal Revenue Code Section 179.

(7) "Tangible personal property" does not include any of the following:

(A) Any tangible personal property that is used primarily in administration, general management, or marketing.

(B) Furniture, inventory, or equipment used to store products.

(C) Any property for which a credit is claimed under either Section 17053.49 or 23649 of the Revenue and Taxation Code.

(D) Materials or fixtures within the meaning of subsections (a)(4) and (a)(5), respectively, of Regulation 1521 of the Sales and Use Tax Regulations, including such items set forth in Appendix A and B of Regulation 1521.

(E) Fuels.

(F) Real property.

(c) PARTIAL EXEMPTION CERTIFICATES.

(1) OBTAINING AND MAINTAINING THE PARTIAL EXEMPTION CERTIFICATE. To obtain a Partial Exemption certificate, an entity must be pre-qualified by the Board, registered to hold a California seller's permit or maintain a consumer use tax account, and be deemed eligible for the Partial Exemption by the CIEDB Board. An entity shall include in its application a copy of its written notification from the CIEDB Board verifying the entity's eligibility and the amount allocated by the CIEDB Board for use by that eligible entity pursuant to the Partial Exemption. Partial Exemption certificates issued to eligible entities will contain a control number and expiration date for verifying the entity's status as an eligible entity. To maintain a Partial Exemption certificate it may be necessary to re-qualify with the Board periodically in accordance with the CIEDB Board's eligibility requirements. A Partial Exemption certificate is not valid if it has not been issued by the Board or if it is accepted after the expiration date on the certificate. Eligible entities that have been pre-qualified or re-qualified, as applicable, may reproduce the issued certificates as needed for their qualifying purchases.

The Partial Exemption certificates issued by the Board will be in substantially the same form as they appear in Appendices A and B of this regulation. Eligible entities who purchase or lease tangible personal property from an in-state retailer or an out-of-state retailer obligated to collect the use tax must provide the retailer with a Partial Exemption certificate in order to claim the Partial Exemption. The Partial Exemption Use Tax

Proposed Regulation 1525.7. Rural Investment Tax Exemption

Declaration must be completed by an eligible entity to claim a Partial Exemption from use tax on purchases of tangible personal property from an out-of-state retailer not obligated to collect the use tax.

For purposes of this regulation, it is presumed that a seller accepts a Partial Exemption certificate from a purchaser in good faith in the absence of evidence to the contrary.

(2) CLAIMING THE PARTIAL EXEMPTION.

(A) IN GENERAL. The Partial Exemption from sales or use tax authorized under this part shall not be allowed unless:

1. The eligible entity furnishes the retailer with a Partial Exemption certificate no later than 60 days after the date of purchase; and

2. The retailer timely files a sales and use tax return claiming the Partial Exemption and together with that timely return, provides the Board with a copy of the Partial Exemption certificate.

(B) EXCLUSIONS. Except as provided in subdivision (c)(2)(C) below, retailers claiming the Partial Exemption in timely filed returns will not be required to furnish the Board with copies of Partial Exemption certificates for sales or leases of tangible personal property made by a retailer at any single physical location to a single eligible entity that do not exceed an aggregate total of \$25,000 during a single calendar quarter. Regardless of the total quarterly sales per purchaser, however, when necessary for the efficient administration of the sales and use tax law, the Board may, on 30 days' written notice, require a retailer to commence furnishing the Board with copies of all certificates on a quarterly basis pursuant to subdivision (c)(2)(A)2.

(C) RETENTION AND AVAILABILITY OF CERTIFICATES. A retailer must retain each Partial Exemption certificate received from an eligible entity for a period of not less than four years from the date on which the retailer claims a Partial Exemption based on the Partial Exemption certificate.

Within 45 days of the Board's request, retailers must furnish to the Board any and all Partial Exemption certificates, or copies thereof, received from eligible entities, including Partial Exemption certificates for aggregate sales or leases of \$25,000 or less to a single eligible entity made at any single physical location of the retailer during a single calendar quarter.

(3) PARTIAL EXEMPTION USE TAX DECLARATION. A Partial Exemption from the use tax shall not be allowed unless the eligible entity:

(A) Timely files a sales and use tax return or consumer use tax return for the period in which the purchase occurs and timely pays any applicable tax in full that is excluded from this Partial Exemption as provided in subsection (a) of this regulation; and

(B) Attaches a completed Partial Exemption Use Tax Declaration to the sales and use tax return or consumer use tax return that is timely filed with the Board.

(d) REFUND OF PARTIAL EXEMPTION.

Proposed Regulation 1525.7. Rural Investment Tax Exemption

(1) For the period commencing on January 1, 2001, and ending on March 31, 2002, an eligible entity may claim the Partial Exemption on qualified purchases from an in-state retailer or an out-of-state retailer obligated to collect the use tax by furnishing the retailer with a Partial Exemption certificate on or before June 30, 2002. The retailer must refund the tax or tax reimbursement directly to the purchaser or, at the purchaser's sole option, the purchaser may be credited with such amount. In the event that the retailer has already reported and paid the tax to the Board, the retailer must file a written claim for refund on or before July 31, 2002.

(2) An eligible entity who paid sales tax on a qualified sale or paid use tax on a qualified purchase and who failed to claim the Partial Exemption as provided by this regulation may file a claim for refund equal to the amount of the Partial Exemption that he or she could have claimed pursuant to this regulation. The procedure for such a claim shall be the same as for other claims for refund filed pursuant to Revenue and Taxation Code section 6901. For transactions subject to use tax, an eligible entity filing a claim for refund of the Partial Exemption has the burden of establishing that he or she was entitled to claim the Partial Exemption with respect to the amount of refund claimed under this part. For transactions subject to sales tax, a person filing a claim for refund of the Partial Exemption has the burden of establishing that the purchaser of the qualified property otherwise met all the requirements of an eligible entity at the time of the purchase subject to the refund claimed under this part.

(e) IMPROPER USE OF PARTIAL EXEMPTION.

(1) CONVERSION OF PROPERTY TO A USE NOT QUALIFYING FOR THE PARTIAL EXEMPTION. Notwithstanding subdivision (a), this Partial Exemption shall not apply to any sale of, or the storage, use, or other consumption in this state of property that, within one year from the later of the date of purchase of the property or the date that the property was first placed into service by the purchaser in an exempt use, is: (i) removed from a qualified county, (ii) converted from an exempt use under this regulation to some other use not qualifying for the Partial Exemption, or (iii) used in a manner not qualifying for the Partial Exemption under this regulation.

For purposes of this regulation, property is converted to a use not qualifying for the Partial Exemption if, without limitation, the property, or any interest in the property, or possession or control of the property, is either directly or indirectly sold, transferred, leased, or assigned to an entity who is not an eligible entity on the date the property is sold, transferred, leased, or assigned to such non-eligible entity. In the case of a corporation that, as an eligible entity, purchases tangible personal property under this Partial Exemption and then, within one year from the later of the date of purchase of the property or the date that the property was first placed into service by that corporation in an exempt use, either directly or indirectly transfers that property to its parent corporation that is not an eligible entity on the date of the transfer of property to the parent corporation, that property has been converted to a use not qualifying for the Partial Exemption.

Tangible personal property shall not be considered used in a qualifying manner for any period of time that the property is located outside a qualified county, regardless of how the property is used while outside such a county.

(2) PURCHASES BY INELIGIBLE ENTITIES. Notwithstanding subdivision (a), this Partial Exemption shall not apply if a purchaser subsequently does not meet the requirements of an eligible entity as determined by the CIEDB Board.

Proposed Regulation 1525.7. Rural Investment Tax Exemption

(3) PURCHASES EXCEEDING THE PARTIAL EXEMPTION ALLOTMENT. Notwithstanding subdivision (a), this Partial Exemption shall not apply to any sale of, or the storage, use, or other consumption in this state of tangible personal property purchased by an eligible entity that exceeds the amounts allocated by the CIEDB Board for use by that eligible entity pursuant to the partial exemption.

(f) PURCHASER'S LIABILITY FOR THE PAYMENT OF SALES TAX.

(1) If a purchaser timely submits a copy of a Partial Exemption certificate to the seller or Partial Exemption Use Tax Declaration to the Board, and then within one year from the later of the date of purchase of the property or the date that the property was first placed into service by the purchaser in an exempt use, the purchaser either (i) removes that property from a qualified county, (ii) converts the property from an exempt use under this regulation to some other use not qualifying for the Partial Exemption, or (iii) uses that property in a manner not qualifying for the Partial Exemption under this regulation, then, in that event, the purchaser shall be liable for payment of the sales tax, with applicable interest, to the same extent as if the purchaser were a retailer making a retail sale of the property at the time the property was so removed, converted, or used.

(2) A purchaser providing a Partial Exemption certificate accepted in good faith by the seller or a Partial Exemption Use Tax Declaration to the Board for tangible personal property that does not qualify for the Partial Exemption is liable for payment of the sales tax, with applicable interest, to the same extent as if the purchaser were a retailer making a retail sale of the property at the time the property was purchased.

(g) LEASES TO QUALIFYING PERSONS.

(1) LEASES--IN GENERAL. Subject to all the limitations and conditions set forth in this regulation, this Partial Exemption may apply to rental receipts paid by an eligible entity with respect to a lease of tangible personal property to the eligible entity.

(2) LEASES--ACQUISITION SALE AND LEASEBACK. An eligible entity will be regarded as having paid sales tax reimbursement or use tax with respect to that eligible entity's purchase of property, within the meaning of those words as they are used in section 6010.65 of the Revenue and Taxation Code, if the eligible entity has paid all applicable taxes with respect to the acquisition of the property notwithstanding the fact that the sale and purchase of the property may have been subject to the Partial Exemption from tax provided by this regulation.

(3) SUBSEQUENT LEASE OF PROPERTY ACQUIRED SUBJECT TO PARTIAL EXEMPTION. If an eligible entity has acquired property subject to the Partial Exemption provided by this regulation and has paid all applicable taxes at that acquisition, the property will be regarded as property as to which sales tax reimbursement or use tax has been paid, and the subsequent lease of that property will not be subject to tax measured by rental receipts.

(h) RECORDS. Adequate and complete records must be maintained by the eligible entity as evidence that the property purchased qualifies under the provisions of this regulation and that the property was used by the eligible entity. The eligible entity must also maintain detailed records to show the amount of the tax benefit derived from this Partial Exemption as each eligible entity will have an annual limit established by the CIEDB Board.

Proposed Regulation 1525.7. Rural Investment Tax Exemption

The Board shall, within one year after being notified by the CIEDB Board that an entity has not fulfilled the requirements of this section, examine the books and records of the entity, and issue a determination of any liabilities due.

(i) **OPERATIVE DATE.** This regulation is operative as of January 1, 2001 and expires December 31, 2005 unless extended by act of the Legislature.

SECTION 6378.1 RURAL INVESTMENT TAX EXEMPTION CERTIFICATE

STATE OF CALIFORNIA
BOARD OF EQUALIZATIONPLEASE NOTE

This is a partial exemption from sales and use taxes at the rate of 4.75% effective January 1, 2001. You are not relieved from your obligations for the local and district taxes on this transaction. The partial exemption is specific to this transaction only and may not be construed to exempt other transactions. Generally, the partial exemption will not be allowed unless this certificate is issued within 60 days after the date of purchase and the retailer claims the partial exemption on a timely filed return. Void after expiration date.

Certificate No:

Expires:

I hereby certify that the tangible personal property described below and purchased or leased from:
(enter seller's/lessor's name and address)

SELLER'S NAME

SELLER'S ADDRESS (Street, City, County, State, Zip Code)

and will be used by me primarily at my facility located at (enter facility's address):

(Street, City, State, Zip Code)

SALES INVOICE NUMBER	SALES INVOICE DATE	DESCRIPTION OF PROPERTY PURCHASED OR LEASED*	SALES PRICE/ RENTALS PAYABLE

I understand that if such property is, within one year from the date of purchase or lease, removed from a qualified county described in Regulation 1525.7(b)(5), converted from an exempt use under Regulation 1525.7(e) to some other use not qualifying for the partial exemption, or otherwise used in a manner not qualifying for the partial exemption that I am required by the Sales and Use Tax Law to report and pay the state tax measured by the sales price/rentals payable of the property to/by me. *Attach a copy of the lease agreement.

PRINT NAME

TITLE

TELEPHONE

SIGNATURE

DATE

PERMIT NUMBER

NOT VALID UNLESS COMPLETED BY THE CALIFORNIA STATE BOARD OF EQUALIZATION

The following business has been registered as an "eligible entity" who has certified that this purchase/lease of tangible personal property will be used in a manner entitling them to the partial exemption provided in Section 6378.1 of the Revenue and Taxation Code.

BUSINESS NAME

CIEDB Board Authorization
Number

BUSINESS ADDRESS (Street, City, County, State, Zip Code)

PERMIT NUMBER

AUTHORIZED BY (Must Have Two Signatures)

REVIEWED BY

DATE

APPROVED BY

DATE

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Proposed Regulation 1525.7. Rural Investment Tax Exemption

JCK: 09/19/01

SECTION 6378.1 RURAL INVESTMENT USE TAX DECLARATIONSTATE OF CALIFORNIA
BOARD OF EQUALIZATION**PLEASE NOTE**

This partial exemption being declared applies only to the state use tax which is at the rate of 4.75% effective January 1, 2001, and is specific to this transaction only and may not be construed to exempt other transactions. As the purchaser, you remain liable for the applicable local and district taxes. To claim the partial exemption, this declaration must accompany a timely filed sales and use tax return for the period of purchase. Void after expiration date.

Certificate No:**Expires:**

I hereby certify that the tangible personal property described below and purchased or leased from:
(enter seller's/lessor's name and address)

SELLER'S NAMESELLER'S ADDRESS (Street, City, State, Zip Code)

and will be used by me primarily at my facility located at (enter facility's address):

(Street, City, County, State, Zip Code)

<u>SALES INVOICE NUMBER</u>	<u>SALES INVOICE DATE</u>	<u>DESCRIPTION OF PROPERTY PURCHASED OR LEASED*</u>	<u>SALES PRICE/ RENTALS PAYABLE</u>

I understand that if such property is, within one year from the date of purchase or lease, removed from a qualified county described in Regulation 1525.7 (b)(5) or converted from an exempt use under Regulation 1525.7(d) to some other use not qualifying for the partial exemption, or otherwise used in a manner not qualifying for the partial exemption that I am required by the Sales and Use Tax Law to report and pay the state tax measured by the sales price/rentals payable of the property to/by me. *Attach a copy of the lease agreement.

PRINT NAMETITLETELEPHONESIGNATUREDATEPERMIT NUMBER**NOT VALID UNLESS COMPLETED BY THE CALIFORNIA STATE BOARD OF EQUALIZATION**

The following business has been registered as a "eligible entity" who has certified that this purchase/lease of tangible personal property will be used in a manner entitling them to the partial exemption provided in Section 6378.1 of the Revenue and Taxation Code.

BUSINESS NAMECIEDB Board Authorization NumberBUSINESS ADDRESS (Street, City, County, State, Zip Code)PERMIT NUMBERAUTHORIZED BY (Must Have Two Signatures)REVIEWED BYDATEAPPROVED BYDATETHIS FORM MAY BE REPRODUCEDAppendix B